PREVIEW: BoE Policy Decision on 18th December 2025 at 12:00GMT/07:00EST

- Expected to cut to 3.75%, 5-4 vote split with Bailey once again the tie-break.
- However, post-CPI the narrative has shifted more to a 6-3 or even a 7-2 split.
- Thereafter, focus on the forward guidance and any hints around the terminal.

OVERVIEW:

Expected to cut the Bank Rate by 25bps. Consensus looks for a 5-4 vote split. However, the recent CPI release argues in favour of a more-dovish skew with 6-3 or even 7-2 well within the realms of possibility. Given the lack of MPR, focus after the decision will be on the lines around forward guidance, particularly as the BoE moves below the 4.00% mark and gets towards the realm of terminal.

PREVIOUS MEETING:

In November, the BoE held rates at 4.00% as expected in a 5-4 split (exp. 6-3) where Bailey had to cast the tie-breaking vote. Bailey remarked that he still thinks rates are on a gradual path downwards, but need to be sure CPI is on track before cutting again. The Governor described market pricing as being a “fair description” of his position. Before the announcement, markets were fully pricing two 25bps cuts by September 2026, with around a 25% chance of another cut. Commentary was broadly maintained, though there was a tweak to the line around the “withdrawal of monetary policy”, to make clear that the BoE is focussed even more intently on the disinflation process, stating that the “extent of further reductions will therefore depend on the evolution of the outlook for inflation”.

DECEMBER:

A 25bps cut to 3.75% is the base-case, with market pricing implying over a 95% chance of such an outcome. Pricing stood at around 90% at the start of the week, modestly knocked by the hotter-than-expected wage data in the October jobs report. However, base effect caveats do apply to this while the broader report points to a weak labour market with the unemployment rate at 5.1% now. Most recently, November’s CPI came in markedly cooler-than-expected, lifting the implied odds of a cut to near 100% for December in the immediacy. While there are some caveats to the series and we need to see if the outcome is a one-off or a robust moderation, the implications are nonetheless dovish and all-but confirmed a December cut. Elsewhere, the UK’s growth narrative remains a point of concern after a soft October GDP series where the headline M/M came in at -0.1%, hit by production falling and no growth in services over the 3M period. Forward looking, the December Flash PMIs eclipsed consensus, however, the details made clear that the economy remains lacklustre and sluggish.

Aside from data, the main pre-December consideration was the Autumn Budget. Within that, the OBR’s growth downgrades and inflation updates broadly chimed with the BoE’s own view, which alongside take rises and the growth hit work in favour of easing. On the Budget, on the dovish side Dhingra welcomed the impact, but described it as “not large”. More pertinently, from the hawkish contingent, Mann said that the budget changes will reduce the inflation rate, however, she is concerned about indications of rising good price inflation which is inconsistent with the 2% target. On that, the November CPI release showed that while the increase in cost of goods leaving factories slowed, the annual cost of raw materials continued to rise. Greene outlined that she is “marginally” less concerned about prices post-budget, but emphasised the “marginally” in her speech. While Lombardelli outlined that she thinks the Budget will reduce inflation by 0.4-0.5ppts, but caveated that by emphasising concern on upside risks and is less convinced about the restrictiveness of policy.

Continuing with the above, the focus for December in the first instance will be the vote split. Consensus looks for 5-4 but 6-3 is also widely called, both in favour of a cut. However, the November CPI report has likely pushed consensus towards 6-3 and opened the door to 7-2. From the four hawks (Greene, Lombardelli, Mann & Pill) Lombardelli has been highlighted as the most likely to support easing given her inflation remarks. Remarks from Greene and Mann don’t point to a shift in their stance post-budget and inconveniently Pill hasn’t spoken since mid-November. As such, 6-3 is likely the basecase, but a different outcome is possible given the lack of insight from Pill and as all of the above comments were made before the most recent labour and inflation series

FORWARD GUIDANCE:

As it stands, the forward guidance is primarily that “if progress on disinflation continues, Bank Rate is likely to continue on a gradual downward path”, guidance that changed in November from “a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate”. Given the lack of MPR and presser, though Bailey will provide closed-door briefings which will be released at 16:00GMT, changes to this line will be the primary gauge for forward guidance. The recent wage data potentially factors in favour of a hawkish adjustment to this. However, the latest CPI data factors in favour of maintaining or even enhancing it. Overall, the most likely narrative would be for the line to be maintained and the statement to maintain its focus on the extent of further reductions being dependent on the evolution of the inflation outlook. A point that also speaks to, and any change will inform on, market pricing for the terminal, a terminal that is currently implied at/below the 3.50% mark, with pre-meeting pricing around a 50% chance of rates going below 3.50% by the end of 2025.

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